

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05 CEA-01
IGA-02 L-03 /086 W
-----034667 021757Z /50

P R 021707Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 3665
INFO DEPARTMENT TREASURY
AMEMBASSY ANKARA
AMEMBASSY PARIS
AMEMBASSY NICOSIA
AMEMBASSY LONDON
AMEMBASSY ATHENS
AMEMBASSY BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 20054

USEEC, ALSO USOECD

E.O. 11652: GDS
TAGS: EAID, EFIN, GW, TU
SUBJ: FRG ECONOMIC AID TO TURKEY

REF: (A) ANKARA 8480, (B) STATE 282533

1. SUMMARY: FRG ECONOMIC AND TECHNICAL ASSISTANCE
FOR TURKEY WILL BE DM 130 MILLION IN 1977 AND
SLIGHTLY MORE IN 1978. CONTINUED DETERIORATION IN
TURKEY'S EXTERNAL POSITION IS BELIEVED TO BE
UNAVOIDABLE AND IS VIEWED WITH CONCERN. PRESENT GERMAN
POSITION, HOWEVER, IS THAT FINANCIAL ASSISTANCE TO
TURKEY MUST COME FIRST FROM IMF, ALTHOUGH CONCLUSION OF
TURKEY/IMF AGREEMENT IS CONSIDERED VERY UNLIKELY.
WITHOUT IMF PARTICIPATION WE ARE TOLD THE FRG WILL TAKE
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NO SPECIAL ACTION TO BAIL OUT PRESENT GOVERNMENT -- NOR
FOR THAT MATTER HAVE THE TURKS AS YET ASKED THAT THEY
DO SO. END SUMMARY.

2. IN CALLS ON OFFICIALS IN FOREIGN OFFICE AND FINANCE
MINISTRY WE FOUND CONSIDERABLE PESSIMISM CONCERNING
TURKISH PROBLEMS, BUT LITTLE IN THE WAY OF POSITIVE

CONTRIBUTIONS TO THEIR SOLUTION. FOREIGN OFFICE OFFICIAL, WHO WILL BE IN ANKARA DECEMBER 5-9 FOR AID NEGOTIATIONS, CONFIRMED INCREASE IN GERMAN ECONOMIC AND TECHNICAL ASSISTANCE FOR TURKEY -- UP TO DM 130 MILLION FOR 1977 AND AN UNSPECIFIED LARGER AMOUNT FOR 1978, COMING PRIMARILY IN THE FORM OF INCREASED COMMODITY AID FOR TURKISH IMPORTS. HE EMPHASIZED THAT THESE NEGOTIATIONS ARE ONE IN A CONTINUING SERIES OF BILATERAL, ECONOMIC AND TECHNICAL ASSISTANCE AGREEMENTS AND WERE NOT CONDITIONED ON TURKISH DISCUSSIONS WITH IMF. HE INDICATED, IN ADDITION, THAT AN INCREASE IN THE LEVEL OF THIS ASSISTANCE WAS A GERMAN INITIATIVE THAT HAD NOT BEEN REQUESTED BY THE TURKISH GOVERNMENT.

3. BOTH FOREIGN OFFICE AND FINANCE MINISTRY OFFICIALS STRESSED THAT FRG HAS NO INTENTION OF DISCUSSING TURKEY'S BALANCE OF PAYMENTS PROBLEMS OR DEBT RESCHEDULING AT THE UPCOMING MEETING OR AT ANY TIME PRIOR TO TURKEY'S COMING TO AGREEMENT WITH THE IMF ON AN ECONOMIC STABILIZATION PROGRAM. ALTHOUGH THE TURKS HAVE NOT YET REQUESTED DISCUSSION OF THIS SORT, OFFICIALS WITH WHOM WE SPOKE HAD INDICATIONS THAT THESE ISSUES MIGHT BE RAISED IN THE COURSE OF AID NEGOTIATIONS. FRG INTENDS TO FEND OFF ANY SUCH DISCUSSION.

4. USE OF OECD CONSORTIUM TO ASSIST TURKEY, WE
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WERE INFORMED BY FINANCE MINISTRY OFFICIAL, HAS NOT BEEN ENCOURAGED BY FRG. IDEA OF CONSORTIUM INVOLVEMENT REPORTEDLY DERIVES FROM PRESIDENT OF CONSORTIUM, WHO WAS DESCRIBED AS ENERGETIC AND ENTHUSIASTIC OVER PROSPECTS OF OECD CONSORTIUM PARTICIPATION. SHOULD DEBT RESCHEDULING BECOME UNAVOIDABLE, OUR FINANCE MINISTRY SOURCE BELIEVES THAT THE CONSORTIUM COULD HAVE A ROLE TO PLAY, SO LONG AS IMF IS INCLUDED. NEVERTHELESS, THE PRESIDENT OF THE OECD CONSORTIUM FOR TURKEY WILL BE IN ANKARA THE WEEK OF DECEMBER 12 FOR PREPARATORY TALKS FOR THE FORMAL CONSORTIUM DISCUSSION SCHEDULED FOR FEBRUARY/MARCH 1978. BALANCE OF PAYMENTS AND DEBT RESCHEDULING WILL BE THE FOCUS OF THESE DISCUSSIONS.

5. OFFICIALS COMMENTED ON THE ROLE OF PRIVATE BANKS WITH RESPECT TO TURKEY'S CURRENT FINANCIAL DIFFICULTIES, SAYING THAT PRIVATE GERMAN BANKS HAD BEEN FORTHCOMING. THEY HAVE INDICATIONS THAT THE BANKING COMMUNITY HAD INCREASED ITS EXPOSURE OF LATE AND HAD REGULARLY ROLLED OVER TURKISH CREDITS. THEY CAUTIONED, HOWEVER, THAT, WITHOUT SOME SIGNAL THAT

TURKEY WAS COMING TO GRIPS WITH ITS PROBLEMS, IT IS
DOUBTFUL THAT PRIVATE BANKS WOULD BE WILLING TO
CONTINUE IN THIS MANNER.

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6. IN DISCUSSING WHAT COULD BE DONE AS A POSSIBLE
RESCUE OPERATION, FOREIGN OFFICE SOURCE SAID PORTUGAL
IS NOT ANALOGOUS. HE OBSERVED THAT US COULD DO LITTLE
OUTSIDE OF THE IMF, BECAUSE CONGRESSIONAL APPROVAL
WOULD BE NEEDED AND COULD NOT BE OBTAINED UNTIL THE
CYPRUS ISSUE IS RESOLVED. HE SUGGESTED THAT TURKEY
SHOULD BE ONE OF THE FIRST RECIPIENTS OF WITTEWEEEN
FACILITY FUNDS AND HOPED THE MECHANISM WOULD SOON COME
INTO OPERATION. THE FINANCE MINISTRY OFFICIAL WAS
EQUALLY VAGUE AND HAD NO CONCRETE SOLUTION TO SUGGEST
BEYOND AN IMF AGREEMENT. THE CHANCE OF NEAR TERM
AGREEMENT WITH THE IMF WAS CONSIDERED EXTREMELY POOR,
HOWEVER, AS, IN THE OPINION OF THIS OFFICIAL, TURKEY
IS NOT YET WILLING FOR DOMESTIC REASONS TO ACCEPT THE

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MEASURES WHICH THE IMF WOULD REQUIRE.

7. ALTHOUGH WE EMPHASIZED (PER REF B) THAT THE US COULD
ONLY BE OF ASSISTANCE IN A RATHER INDIRECT MANNER,
GERMAN OFFICIALS EXPRESSED INTEREST IN FURTHER ELABORA-
TION OF US VIEWS ON THE TURKISH SITUATION. PLEASE
ADVISE.
STOESSEL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE
Control Number: n/a
Copy: SINGLE
Sent Date: 02-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN20054
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770447-1119
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197712102/aaaadigm.tel
Line Count: 184
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9ddecefb-c188-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 ANKARA 8480, 77 STATE 282533
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 107364
Secure: OPEN
Status: NATIVE
Subject: FRG ECONOMIC AID TO TURKEY
TAGS: EAID, EFIN, GE, TU
To: STATE USEEC MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9ddecefb-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009